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FISCAL IMPACT STATEMENT

LS 7396 **NOTE PREPARED:** Jan 25, 2007
BILL NUMBER: HB 1711 **BILL AMENDED:**

SUBJECT: Increased Retirement Benefit Multiplier.

FIRST AUTHOR: Rep. Herrell **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides that the multiplier used in calculating pension benefits for members of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) who retire after June 30, 2007, is 1.6%.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Public Employees' Retirement Fund* - The estimated impact on PERF is provided in the following table.

Impact on PERF			
	State	**Municipalities**	**Total**
Increase in Unfunded Accrued Liability	$992 M	$1,380 M	$2,372 M
Increase in Annual Cost	$118 M	$180 M	$298 M
Increase in Annual Cost as % of Payroll	7.4%	7.0%	7.2%

The increase in the multiplier will also result in a decrease in funded status of the fund from 97.6% to 80.9%

The increase of $118 M in annual funding will be paid from the state General Fund (55%), or $64.9 M, and various dedicated funds (45%), or $53.1 M. The percentage split represents the split for personal services in the state budget.

Teachers' Retirement Fund -

Since TRF benefits from the Pre-1996 Fund are funded on a pay-as-you-go basis, the increase in benefit payments from the higher multiplier for the two TRF funds are shown in the following table through FY 2010. The increased benefit payments will continue into the future.

Estimated Increase in Projected Benefit Payments for TRF				
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**
Pre-1996 Fund	$0	$36.6 M	$57.9 M	$80.9 M
1996 Fund	$0	$2.9 M	$4.8 M	$7.1 M
Total	$0	$39.5 M	$62.7 M	$88.0 M

The following table shows the impacts on the employer contribution rates required for the two TRF funds to fund the increased multiplier.

Change in Employer Contributions Due to Increase in Multiplier for FY 2008			
Increase in Contributions for:	**Pre-1996 Fund**	**1996 Fund**	**Totals**
Normal Cost	2.92%	3.03%	2.97%
UAAL #	5.91%	2.14%	4.36%
Total Increase	8.83%	5.17%	7.33%
# The Unfunded Actuarial Accrued Liability is amortized over 28 years.			

The fund affected is the state General Fund. The Pre-1996 Fund is funded on a pay-as-you-go basis, while the 1996 Fund is actuarially funded by a level percent of payroll, currently 7%.

Explanation of State Revenues:

Explanation of Local Expenditures: See table in *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF.

Local Agencies Affected: School corporations with members in TRF; Local units with members in PERF.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Funded Status The relationship of the assets of a pension plan to its liabilities.

Normal Cost– The current value of benefits likely to be paid on account of members' service being rendered in the current year.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.